

Reverse Annuity Mortgages



2005

MBH
Montana Board of Housing



Financial Help for the Senior Homeowner

Since its inception in 1989, the Reverse Annuity Mortgage (RAM) Program at the Montana Board of Housing (MBOH) has helped senior Montana homeowners of low and moderate income retain ownership of their homes, while continuing to provide home maintenance, pay taxes and supplement their retirement income.

The MBOH received authorization to establish a RAM program by the Montana Legislature. The Montana Aging Services Bureau, formerly called the Office on Aging, was chartered to assist the RAM program with counseling and application preparation.

Loan Description

Q. What is a Reverse Annuity Mortgage program?

A. It is a mortgage loan that allows senior Montanans to convert equity from their home into supplemental monthly income.

Q. How does the reverse mortgage work?

A. You receive a monthly payment on the first of each month from the MBOH for 10 years. Your loan is offered in an amount up to 80% of the value of the FHA appraised value of your home. We can offer up to \$100,000, but not less than \$15,000.

Q. Are the payments I receive taxable?

A. No. RAM payments are not considered income. They do not have to be reported to the IRS, do not affect SSI or Medicare payments, and do not have to be identified if one spouse is placed in a nursing or extended care facility.

Q. Can the 10-year period be reduced in order to increase the amount of the monthly loan payment?

A. No. The loan is set up so you will receive your monthly payment for 10 years, or as long as you occupy the property.

Q. If I choose a loan amount less than the maximum allowable, can I increase the loan amount later during the 10-year period?

A. No, the loan does not have that flexibility.



Q. Can monthly loan payments cease during the 10-year period?

A. Montana guarantees your payment for 10 years, or as long as you live in your home.

Q. Will my monthly payment always stay the same?

A. Yes. Your monthly payment will remain the same during the 10-year period.

Q. What is the interest rate?

A. It is a fixed rate at 5% (APR of 5.0%).

Q. How do I pay back this interest?

A. The interest accrues as you receive payments. It is automatically calculated into your total loan with each payment and comes due when your loan is finished or you no longer live in your home.

Q. What is the amount of the loan balance at the end of the 10-year payment period?

A. The balance represents the total principal advanced to you in the form of monthly payments and any lump sum payments and interest that have accrued on the principal advance.

Borrower Eligibility

Q. Who is eligible for a RAM?

A. Homeowner(s) 68 years of age or older with an annual family income not exceeding the MBOH RAM income limits; whose home is eligible; and who has completed the RAM counseling program. Some exceptions may be considered.

Q. What are the MBOH RAM income limits?

A. The annual family income must not exceed the following:

1 person household	\$19,140
2 person household	\$25,660
3 person household and up	\$32,180

Q. If I am married, must my wife be a co-borrower?

A. Yes, and there must be joint ownership of the home with rights of survivorship.

Q. If I am married, does my spouse have to be 68 years old or older?

A. Yes. Some exceptions may be considered.

Q. How is my annual family income measured?

A. Identify income of all adult members of the household, other than full-time students. The income is the amount of anticipated total income from all sources for the next 12-month period from application. This includes nontaxable income, such as social security and municipal bond interest. Any investment or business losses cannot be subtracted in determining gross income. Exclusion will be allowed for certain defined, non-reimbursed, ongoing, medical and independent living expenses.

FOR EXAMPLE:

An application is being completed in May. Income is based on the anticipated income for the 12-month period of May through April of the next year. All sources of income must be anticipated for that time period.

Add:

Monthly Social Security	
Joe	\$ 775.00
Jane	\$ 350.00

Monthly Retirement Income	
	\$ 550.00

Monthly Part-time Income	
	<u>\$ 275.00</u>

Monthly Anticipated TOTAL	\$ 1,950.00
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	<u>x 12</u>
Ant. Annual Income	\$23,400.00

Less:

Monthly Ongoing Medical Expense	\$ 154.50
	<u>x 12</u>

Annual Ongoing Medical Expenses	< <u>\$ 1,854.00</u> >
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Adjusted Anticipated Annual Income	<u>\$21,546.00</u>
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Income Limit: Two-person household	\$25,660.00
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Q. Do I have to be retired to be eligible?

A. No, you may continue to have full- or part-time employment, as long as you do not exceed the income limit at the time of the loan closing.

Q. What if my annual family income exceeded the MBOH RAM income limits during the 10-year monthly payment period?

A. Your RAM will continue with monthly payments to you. You only need to meet the Annual Family Income Requirement at the time of application through loan closing.

Q. How can I estimate the amount of the monthly loan payment that I would receive?

A. For a 10-year period, your monthly payment would be approximately six-tenths of 1 percent of your loan amount without consideration for a requested lump sum payment.

**FOR EXAMPLE:
10-Year Payment Period**

Appraised Value of Home	Maximum Loan Amount	Monthly Loan Payment*	Monthly Payments
\$125,000	\$100,000	\$631	\$76,690
87,500	70,000	438	53,603
81,250	65,000	406	49,755
75,500	55,000	342	42,059
62,500	50,000	310	38,211

*Potential closing costs included.
*Lump sum payments would reduce the amount of the monthly payments.



Q. Can I receive a lump sum payment at the start of the loan and reduce the monthly loan payment?

A. Yes. You may choose to receive an amount up to \$10,000 (some exceptions to the amount may be considered) for purposes such as:

1. Paying off liens (small mortgage balances, back taxes, etc.),
2. Repairs or improvements to the home,
3. Medical expenses, and
4. Paying outstanding bills.

Q. If I receive a lump sum payment, how will it affect the monthly loan payment?

A. For a 10-year payment period, a lump sum payment will reduce the amount of the monthly payment that you will receive by a little more than \$10 for each \$1,000 of lump sum payment. For example, a \$3,000 lump sum payment will reduce the monthly payment by approximately \$35.

Q. Can I receive a lump sum payment at any time?

A. No, the only time you can receive a lump sum payment is at the loan closing.

Home Eligibility _____

Q. What types of homes are eligible?

A. An owner-occupied single family dwelling, which means a one- to four-family living unit. **Excludes:** Mobile homes (some exceptions may apply). The home must be located in Montana.

Q. What is the effect of an existing mortgage or other lien on my ability to submit an application?

A. You may apply now, but the home must be clear of any mortgage or other type of lien at loan closing. A lump sum advance, up to \$10,000, is available as a potential mechanism to clear existing mortgages or liens. This lump sum is paid to the borrower at the time of loan closing. However, if there is an assessment against your home, such as for sewer, water or road improvements, you will not have to pay off the assessment in full, as long as your payments on the assessment are current at the time of closing and are maintained current during the term of the RAM.

Q. Is there a maximum appraised value of an eligible home?

A. No.

Q. How is the current appraised value determined?

A. After you apply and a determination is made that you meet the borrower eligibility requirements, the MBOH will assign a qualified FHA appraiser. The FHA appraiser will make arrangements through the MBOH to inspect your home and determine a current estimated value.

Future Considerations _____

Q. Will I still own my home?

A. Yes, you continue to own your home and benefit from any appreciation in value. However, the MBOH will have a lien in the form of a first mortgage on your home, which secures the RAM.

Q. How will the loan be repaid?

A. Generally, the loan will be repaid from the proceeds of the sale of the home upon the death of the last surviving borrower residing in the home, or upon the permanent vacation of the home by the borrower(s). Permanent vacation of the home is typically construed as more than 180 days.

Q. Can I sell my home before the 10-year period is over?

A. Yes, but the monthly payments would stop and the outstanding balance of the RAM loan would have to be repaid. A RAM loan is repayable at any time for any reason. There is no prepayment penalty.

Q. What happens if I no longer occupy the home, even though I still own it?

A. The monthly payments stop and the outstanding balance of the RAM loan has to be repaid.

Q. What happens if one spouse dies before the 10-year period is over?

A. The monthly payment continues to the surviving spouse.

Q. How are real estate taxes and insurance handled?

A. Real estate taxes must be fully paid and adequate property insurance must be in effect at the time of closing and maintained current by the homeowner during the term of the RAM loan.

Q. If I continue to live in my home after the 10-year payment period will the interest continue to accrue?

A. Interest continues to accrue until the loan is paid. The interest with principal will never exceed the appraised value of the home.

Loan Application _____

Q. How do I obtain a loan application?

A. Applications may be completed during the required counseling to receive a reverse annuity mortgage. Applications may be obtained by contacting either one of the following:

Montana Board of Housing
P.O. Box 200528, Helena MT
59620-0528
Telephone: (800) 761-6264 or
(406) 841-2840

Montana Aging Services Bureau
P.O. Box 204001, Helena MT
59620-4001
Telephone: (800) 332-2272 or
(406) 444-7784

Information is also available on-line:
http://housing.mt.gov/Hous_BOH_ed.asp

Q. What is the application fee?

A. There is no fee for an application or the counseling provided.

Q. What is the application process?

A. The application process requires potential borrowers first complete a RAM counseling program. The RAM application may be completed during the counseling program with the Montana Aging Services Network counselor. If you wish to proceed with the application process after completing the counseling session, a completed application should be submitted to the MBOH.

Q. How do I locate the Montana aging services network counselor in my area?

A. Both the MBOH and the Aging Services Bureau maintain a printed list of the area counselors. The list is available upon request and will be included with the application material.

Q. What does the MBOH do with my application?

A. The MBOH reviews your application in regard to the eligibility requirements; notifies you of the results of the review; arranges the FHA determination of estimated value; makes a loan commitment or denial; and arranges the loan closing.



Q. What are the fees and costs of loan closing?

A. You can pay the following one-time closing costs of approximately \$1,000, or you can elect a lump sum advance to assist in covering certain closing costs. The difference between the closing costs and the available lump sum amount is the obligation of the borrower(s).

FHA Appraised Value	\$350.00*
Title Search and Policy	450.00*
Recording of Loan Documents	50.00*
Closing Fee	<u>150.00*</u>
	\$1,000.00

*The cost of the title policy varies according to loan amount. Costs vary with location.

Q. If I am approved, what legal papers will I have to sign?

A. RAM Application
Firm Commitment
RAM Loan Agreement
Trust Indenture
Mortgage Note
Homestead Non-exemption
Disclosure Statement
Notice of Right to Cancel
Estimated Total Annual Loan Cost (TALC)

Q. Will there be any personal liability on my part or that of my heirs?

A. No. The MBOH will look only to the property for repayment of the RAM loan.

Alternative accessible formats of this document will be provided upon request.



**For more information or to apply
for a RAM loan, please contact
one of the following:**

Montana Board of Housing

P. O. Box 200528

Helena MT 59620-0528

1-800-761-6264 (phone)

or (406) 841-2840 (phone)

TDD (406) 841-2702

Montana Aging Services Bureau

P. O. Box 204001

Helena MT 59620-4001

1-800-332-2272 (phone)

or (406) 444-7784 (phone)

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http://housing.mt.gov/hous_boh_ed.asp